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Issue Date: May 6, 2011 – Reporting on the 1st Quarter of 2011

Finally - The Good News Issue (at least locally!)

Major transactions this quarter

The biggest deal of the quarter was the sale of the Grand Sierra Resort from an affiliate of JP Morgan to the Meruelo Group, based in Downey CA. JP Morgan Commercial Mortgage Investment Corp. had foreclosed on the property on October 30, 2008 at a value of $226.9 million. This provided the state of Nevada with a $930 thousand windfall in transfer tax at the time.

Turner Development Corp., Newport Beach, CA, acquired the 12-building, 252,000-sf Glendale East Business Park from New York's Sentinel Real Estate Corp. for $8.8 million. With a $2.5 million renovation budget Turner plans to install new roofs, landscaping and signage and to market the project as industrial condominiums ranging in size from 6,000 to 31,000 square feet. The property was acquired by Turner Opportunity Fund, a limited partnership created in mid-2009 to acquire distressed real estate assets in California, Nevada and Arizona.

NAI Alliance finally closed the sale of the Pfizer building in the South Meadows, along with its additional 9.76 acres of land for $11.5 million. They had originally listed the property for sale in April 2008 for $27.6 million.

Seller	Buyer	Address	Date	Price
Credit Markets Real Estate Corp	Gage Village Commercial Dev. LLC	Grand Sierra Resort 2500 E 2nd St	03/31/11	42,450,000
AIG Baker Sparks LLC	Inland American Sparks Crossing	Sparks Crossing: 137 Los Altos Pkwy	03/25/11	38,642,000
Echo Avenue Investors LLC	Pancal 390 Lear 195 LLC (Panattoni JV w/ CalSTRS)	6650 Echo Ave	01/10/11	18,557,000
Pfizer Inc.	2610 Metropolis Corp (Brightpoint)	1025 Sandhill Rd	02/18/11	11,500,000
Glendale Realty LLC (Sentinel)	Tof Sparks LLC (Turner)	616 E Glendale Ave	01/27/11	8,807,000
Washoe-Mill Apartments	Washoe Mill Partners LP	1375 Mill St	01/21/11	7,600,000
Nevada State Bank	Fdc Eagle Landing Inv Co LLC (Fritz Duda)	9725 Pyramid Way	03/22/11	7,000,000

Good News Locally

Toys R Us Inc. will open a 300,000 square foot e-commerce distribution center in the Tahoe Reno Industrial Center in July. They will employ 120 full-time worker s plus 230 more during the holidays.

Dermody Properties ("DP") and United Construction Co. announced on May 4th the development of a 462,720-square-foot Western US Internet Fulfillment Center facility for Urban Outfitters. When they open in June of 2012 they will create 150 direct full-time jobs. The $60 million facility, designed to be LEED Silver Certified, will be located in DP's Silver Lake Business Park. Urban Outfitters purchased 38.34 acres of land from DP. The facility can be expanded to 895,000 sf over time.

Passenger traffic through Reno-Tahoe International Airport in March was up 0.5% over one year ago. Cargo shipments in totaled 10.5 million pounds, the second largest March total in the history of the airport, according to the Northern Nevada Business Weekly ("NNBW") on 4/26.

According to the 4/21 issue of the NNBW online, The number of sales of existing homes in Washoe County during March rose 5% from a year ago, says the Reno-Sparks Association of Realtors. The median price of $160,000 was down 1% from March.

Auction.com has scheduled a $1 billion auction of Nevada commercial real estate and notes for May 19th. They claim this is the largest such auction in US history. This is good news for two reasons:

1. It clears out a lot of junk out of the system, and
2. Only one of the properties is in northern Nevada.

Unemployment in the Reno-Sparks region in March slipped to 13.1%, compared with 13.2 a month earlier. 700 more people were at work. The jobless rate also declined in Carson City.

Total Wine opened this quarter in The Commons shopping center on South Virginia, replacing Linens &Things. For you California readers Total Wine is like Bev Mo: huge, great selection and great prices. They could give a few local purveyors a serious run form their money.

After a $4million facelift by the new owners the Siena Hotel, Spa & Casino reopened recently. The Siena originally opened in July of 2001, just as the dot-com meltdown was starting, and, like all Nevada tourism, was significantly impacted by 9/11. The new owners bought the property at a foreclosure auction for $3.9 million, compared to the $70 million all in price tag of the property upon its initial conversion from a Holiday Inn.

Median sales prices are exploding in three Reno suburban locations, as reported by the Reno Sparks Association of Realtors:

Area	Jan-10	Feb-11	Increase $	Increase %
Suburban SW	386,000	504,500	118,500	23.5%
West Suburban	241,410	270,000	28,590	10.6%
Va. City Highlands	200,000	292,000	92,000	31.5%

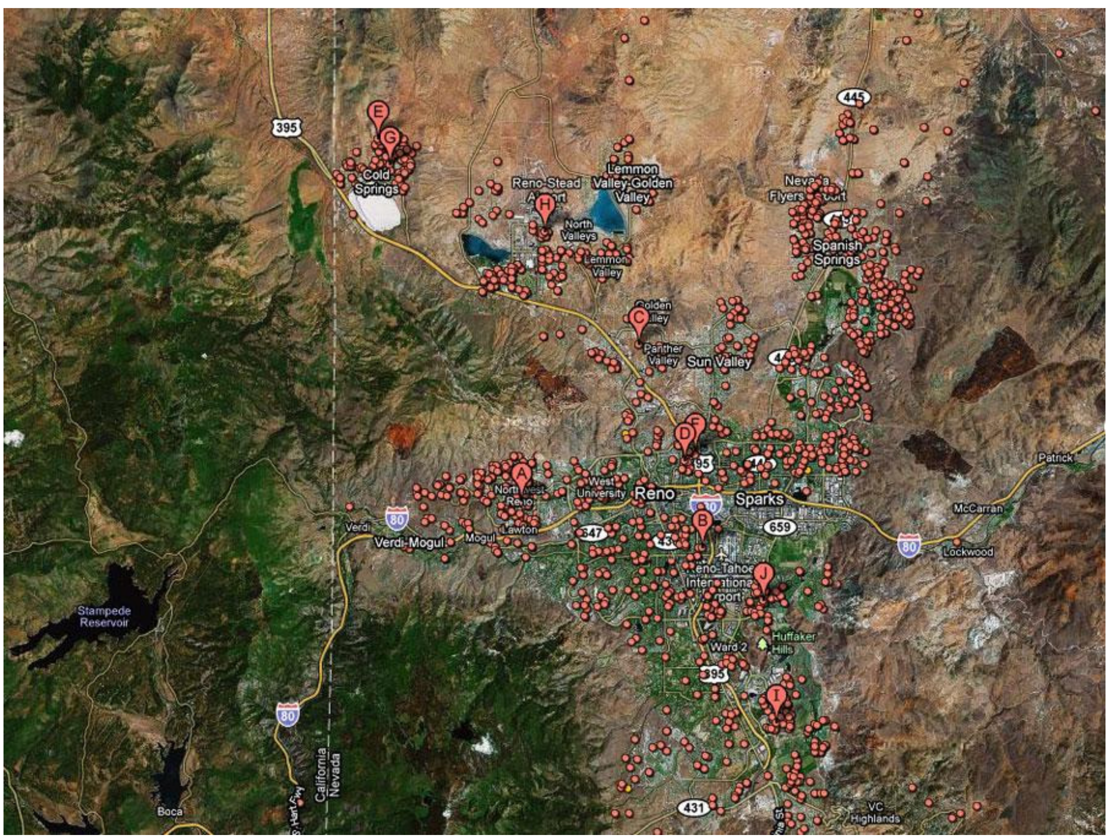
Recall that median price means one half of sales were above these numbers and one half were below, the significant jumps in these three areas portend the looming recovery, although many analysts believe the bottom is still six months away.

The Regional Transportation Commission ("RTC") is planning $500 million of regional road projects this year, creating 600 jobs. The biggest chunk, about $35 million is earmarked for the design and construction of a bridge over the Truckee River that will bring the Southeast Connector closer to reality. This road will connect east Sparks to the South Meadows, hopefully relieving significant congestion on US 395 and the Spaghetti Bowl - the interchange with I-80.

Bad news locally

Nevada was #1 in bankruptcies per capita in 2010 according to the Administrative Office of the U.S. Courts. Nevada's rate was 11.44 filings per 1,000 population, more than twice the national average of 5.07. California was 7th at 6.81,

RealtyTrac came out with the total home foreclosure numbers for 2010. The Reno MSA came in at 11th worst in the country, with 1 in 6 homes in foreclosure. For a frightening way to visualize the foreclosure crisis, they borrowed a Google Maps technique described by Barry Ritholtz. The red dots show homes currently in foreclosure. This Image is courtesy of Google Maps



Did you Know:

According to the April 22nd San Jose Mercury News 51% of the California residential real estate sales in March were distressed.

The Rancharrah estate, encompassing 117 acres, with significant frontage on Kietzke Lane, received a unanimous vote from the Reno Planning Commission in early April to allow up to 271,800 sf of new commercial space. The 25,000 sf mansion would become an events center. Finally, the existing equestrian center would also be commercialized with stables and public horse events.

Fernando Leal, the developer of the Montage condominiums in Reno announced plans to convert the former Fitzgerald's Casino Hotel into a non-gaming, non smoking hotel featuring a 197 foot climbing wall. When it re-opens this summer 136 of the 347 total rooms will be in service.

Macro economic Trends

The 4/21/11 edition of the Wyatt Investment Research Newsletter stated the following: "The Fed made bonds the most dangerous asset in the world. Responsible investors are advised to SELL TREASURIES NOW! Government debt has made bonds a one-way ticket to the poor house. The truth is the U.S. has been going down this road for years. It's been over a decade since the federal government ran a balanced budget. And that was just barely. Even then, that surplus lasted all of 2 years before professional politicians got back to their deficit spending ways. And now that interest rates are at ZERO, and the Fed *still* isn't done gutting the dollar by pumping cash into an economy that's bursting with easy money. When Ben Bernanke decided to spend $660 billion to buy Treasury bonds, it was the kiss of death for the bond market. Investors took the cue and started selling. Bond yields have spiked higher -- and the Fed hasn't even started to raise interest rates yet!

When interest rates start to rise. Treasury bond prices will be absolutely crushed. That's why the world's biggest bond investor, PIMCO has declared the end of the 30-year bond bull market. Because once the Fed starts hiking interest rates -- the losses will be devastating. The writing is on the wall - it is time to sell Treasury bonds and bond funds and get your money into assets that will actually provide you and your family with a decent return".

On a happier note, James Paulsen, Ph.D., Wells Capital Management's chief investment strategist in the April 18th edition of his Economic and Market Perspective Report, has a section, titled, "Don't "Over-Worry" the Deficit". He writes, that deficits are mainly a cyclical problem and that the deficits in the current Great Recession are mainly attributable to weak government receipt growth. In this recession, government receipts declined by more than during any post-war recession. A large number of future inflation rates since 1965 have been between 1 and 3% regardless of whether the current deficit was between 4 and 6 % or whether the contemporary fiscal balance was in surplus. Although, deficits are widely thought to lead to higher future inflation rates, there appears to be little empirical evidence supporting this belief. Rather, current deficits and future inflation rates appear nearly independent, showing no consistent relationship, according to Paulsen.

Writing in GlobeSt.com on April 18, 2011 Joel Ross in his column, The Ross Rant, in an article titled, "Real Estate Investment vs Obama Deficits", writes that Senator Paul Ryan should be listed as an American hero for having the guts to formulate a budget plan that tries to address not only the budget, but also the real issue of entitlements. While Ryan's proposals may not be the best solutions, at least he has forced open the discussion to get to solutions. According to Ross, soon after Ryan issued his plan Obama made a speech that "damaged the potential for intelligent dialogue", and the dollar and the economy will suffer for it.

Mr. Ross asks, "What does all this have to do with real estate investment? It is hard to really know. The dollar will continue to decline as there will be no solutions to the deficit and to the entitlement problems. This is very likely to become a longer term trend as other countries seek to hold other currencies and bonds of more responsible governments. Talk of another reserve currency will continue, and at some point may get traction. This may have two impacts.

1. First it will mean eventual inflation here as the dollar buys less and less. This is compounded by the ultra low rates and excessive monetary stimulus from the Fed and huge government deficits. The inflation side will mean rents go up, but also costs, especially oil.
2. Second there may be an increasing influx of foreign investment dollars since buying US assets will become less and less expensive as the dollar continues to decline. Investors, however, may begin to lose confidence in investing in the US as the fiscal problems continue unresolved.

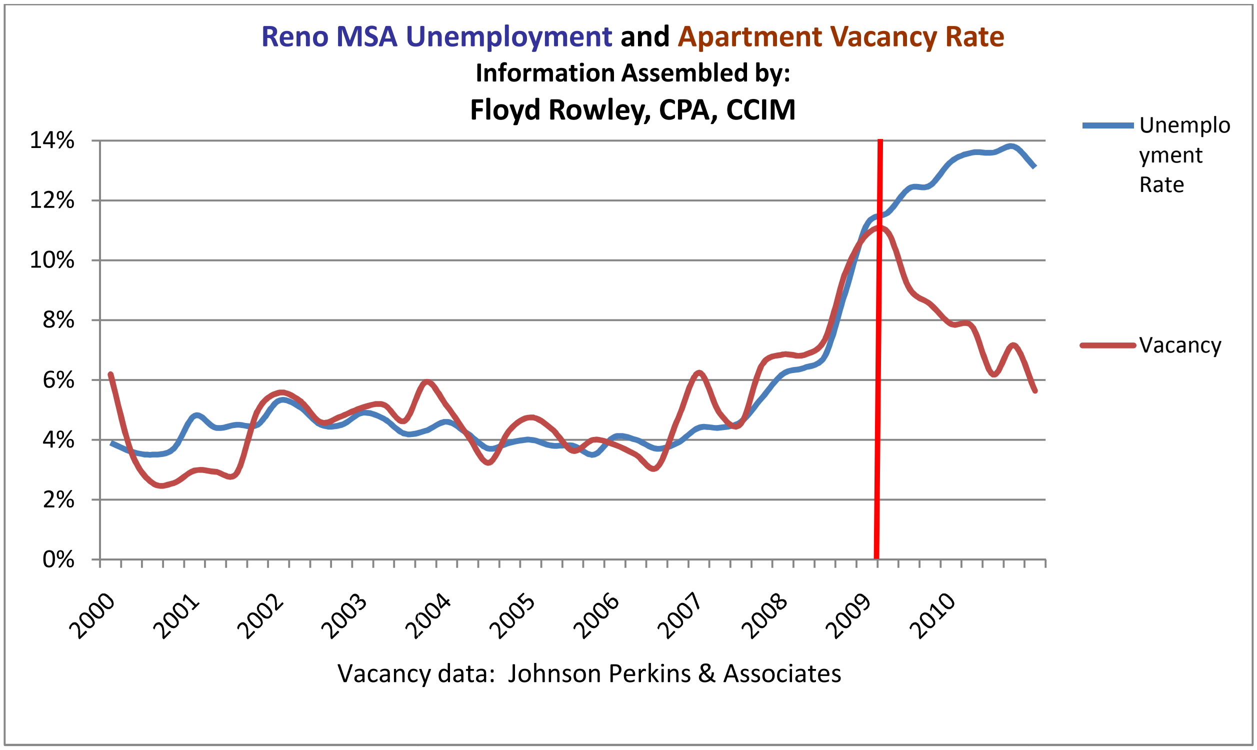
Ross states that it is likely that owning hard assets, such as real estate, will become more attractive as dollar based assets continue to decline in value. Offsetting some of the benefits is the certainty that interest rates are going to rise over the next few years, and what works for leverage now at Libor at 26 basis points, is not going to be pretty when Libor is again at 5% in a few years. Bottom line, there are pros and cons about US real estate as an investment now, but likely it is a far better place to be than US dollar cash or US dollar based bonds over the next several years.

<u>Apartment Statistical Review</u>

Once again I am indebted to Johnson Perkins & Associates ("JPA") for their Quarterly Apartment Survey to present the graph below and to study it to make the following commentary:

- Vacancy overall took a huge dive in Q1, dropping from 7.16% overall to 5.16%. Six of the 10 market areas are now at or below 5%, with only the predominantly blue collar areas of Brinkby Grove and Airport significantly above the "magic" 5% threshold.
- The overall vacancy is now back to the levels of April 2002, right before the previous cycle took off.
- Overall rents are back to April 2005 levels, just prior to the 3-year run-up that peaked in April 2009.
- This is the first quarter that I can recall where all 10 JP&A market areas recorded drops in vacancy.
- The special use permit for the ERGS Properties' proposed 420 unit Silver Peak Apartment project was extended to March 2016.

Finally, I have solid information that Ryder Homes will probably start construction of a 280 unit luxury apartment property on Arrow Creek Parkway, on a site that backs up to the Tamarack.



About the Author

Floyd joined the Johnson Group in January 2011 to continue his commercial investment real estate brokerage practice in northwestern Nevada, after serving over seven years as a Senior Vice President of the Colliers Investment Services Group. He focuses on representing buyers or sellers in investment property sales: large apartments, office buildings, retail and industrial properties. Floyd also does sale / leaseback transactions. Since mid-2004, Floyd has closed over $120 million of investment sales transactions in the Reno MSA. Starting in the fall of 2008 he has focused on distressed assets, mainly apartments. Since then he has completed over $245 million in broker price opinions, resulting in $24 million worth of apartment listings.

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